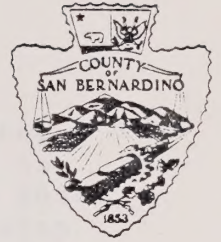


## INTER-OFFICE MEMO



DATE February 13, 1978  
FROM EARL GOODWIN *Goodwin* Ext. 2018  
County Administrative Officer

TO BOARD OF SUPERVISORS

cc: Agency Administrators  
Elected Department Heads

SUBJECT REPORT ON COMPARATIVE PROPERTY TAX RELIEF PROPOSALS

The Board has requested a comparative analysis of the Jarvis-Gann Property Tax Limitation Initiative (Proposition 13) and the property tax relief proposals being considered by the Legislature (Proposition 8). The voters will be given the opportunity to choose between these at the June 6 election.

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The Board has long supported the need for meaningful property tax reform. This need, especially for homeowners and those on fixed incomes has been long recognized. While property taxes have consistently risen for all types of taxpayers, homeowners have been particularly hard hit because they cannot pass the cost of taxes along to others. Business, including owners of rental property, while somewhat limited by competition can include its taxes in its overall price structure and thereby recover the cost.

Enacting property tax relief must be the responsibility of the State Legislature for two reasons. First, any significant change in the property tax system must be implemented through enactment of new State laws. Second, because of the size of the property tax, over \$10.3 billion Statewide and \$305.5 million in San Bernardino County this year, any offsetting revenues for reduced property taxes can only be generated through the tax sources available to the State.

If the Legislature does not act, then government is faced with the prospect of changes in the law brought about through the initiative process. It should be noted that in both 1968 and 1972, when significant tax relief programs were passed, they also competed with ballot initiatives to limit property taxes.





# REPORT ON COMPARATIVE PROPERTY TAX RELIEF PROPOSALS

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Local officials, too, share some responsibility. Holding property taxes to a minimum is one step, and the Board has been able to keep the property tax dollar cost to less than an 8% average increase for the last five years and to drop the tax rate by more than 10% this year. In addition, the distribution of local tax increases is unequal because property is assessed on other than an annual basis and only newly reassessed property pays the added cost. Again, the Board has recognized this inequity and implemented an annualized property appraisal program which will equalize local tax cost increases for all property owners.

Since 1968, two major tax relief measures have been enacted in California. These have provided direct reductions in the property tax burden of homeowners, renters, and business and have been financed through higher sales, income and business taxes at the State level. In addition, programs for senior citizens have also provided special relief to that segment of the population most hard hit by inflation and limited by fixed incomes.

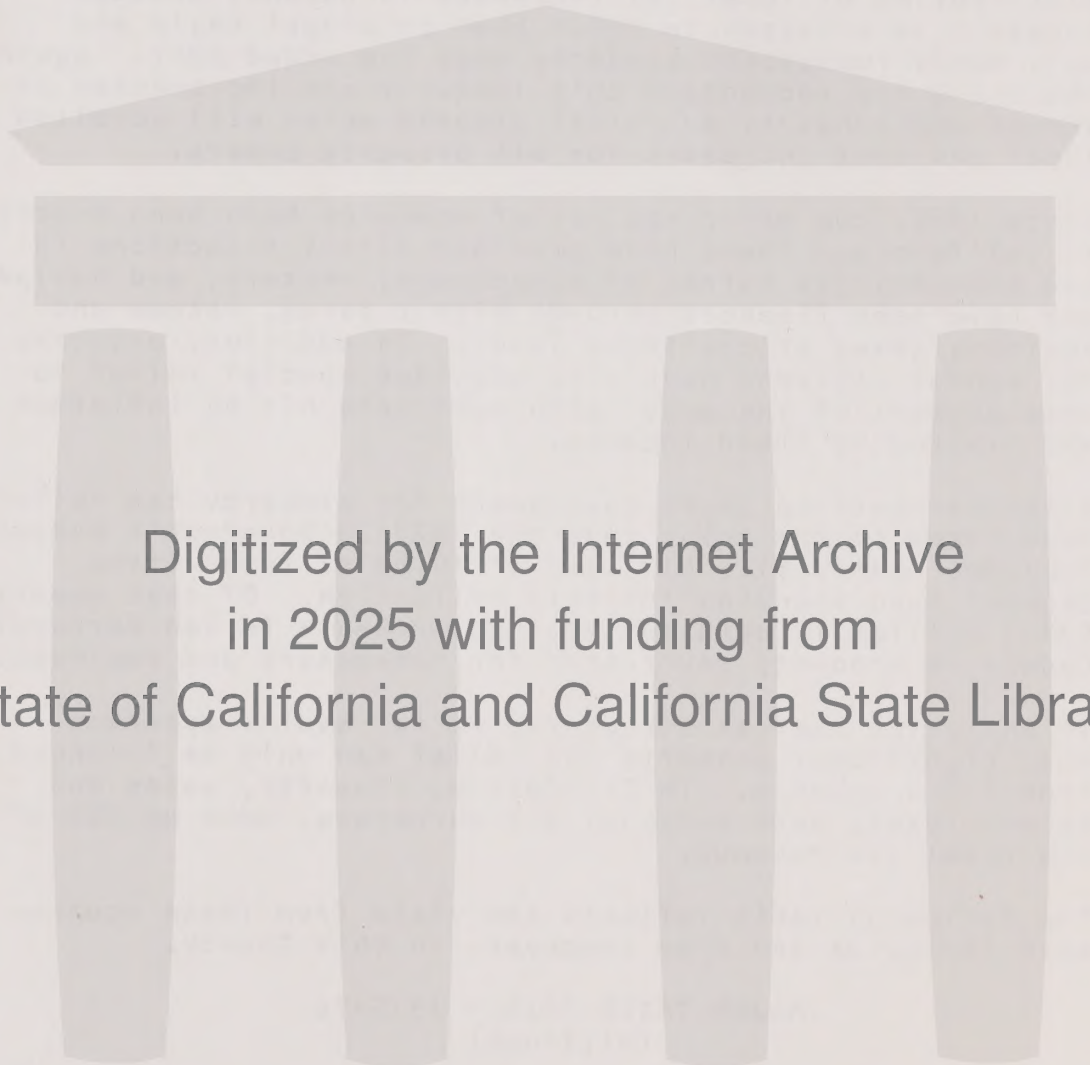
State payments to local government for property tax relief have risen to the point that the 1978-79 Governor's budget includes nearly \$1.5 billion, or 10.8% of total State General Fund spending for this obligation. Of that amount, \$38.7 million is paid to local governments in San Bernardino County as property tax relief for homeowners and business.

In analyzing the tax structure, it is readily apparent that significant property tax relief can only be financed from a few sources. In California, property, sales and income taxes, both personal and corporate, make up 88% of the total tax revenue.

The following table reflects the yield from these sources both Statewide and from taxpayers in this County.

## MAJOR TAXES PAID - 1975-76 (millions)

	<u>State</u>	<u>San Bernardino County</u>	<u>Percent of Statewide</u>
Property Tax	\$ 8,296.8	\$ 232.2	2.8
Sales	4,683.0	129.8	2.8
Income			
Personal	3,090.0	61.6	2.0
Corporate	<u>1,286.5</u>	<u>25.7</u>	<u>2.0</u>
Total	\$17,356.3	\$ 449.3	2.6
Population	21,520,000	737,000	3.4



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Overall Comparison

Assessing any tax relief measure requires evaluating the probable tax savings to various groups of taxpayers, the potential of other new taxes to make up any lost property tax revenue and the possible service adjustments in local government programs which might result if property tax reductions are not fully replaced.

A great deal of media coverage has already been given to Proposition 13. Additionally, several governmental entities and private organizations have reported on the Amendment. Much of this discussion has involved the "cuts in government services" required by Proposition 13. That conclusion is based on what I think is an unrealistic assumption. The Proposition, if approved, will have a profound impact on the financing structure of local government. Serious public service disruptions could occur only if State and local officials do not cooperate to develop alternative financing measures.

It is highly unlikely that the Legislature will allow essential local services to be dismantled, particularly when public protection programs depend most heavily on the property tax. In addition, schools which receive 54% of their financing from property taxes must be considered as a highest priority for continued adequate support. It is most important that careful deliberation be given to alternative financing measures under Proposition 13.

PRESENT PROPOSALS

Summary of Jarvis Initiative (Proposition 13)

The Jarvis-Gann Initiative, Proposition 13 on the June 6 ballot, would change the California Constitution as follows:

- Limits total property taxes on all real estate to 1% of the "full cash value" of the property versus about 3% currently;
- Exempts existing voter approved bonded indebtedness from the 1% limitation. Bonds not approved by voters, including Redevelopment Agency bonds, are like any other expense and must be paid from the 1% tax;
- Defines "full cash value" as the Assessor's appraised market value for 1975-76, adjusted for inflation of not more than 2% per year;





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- Permits establishment of a new "full cash value" only when there is new construction or a change in ownership;
- Requires counties to collect the 1% property tax and to "apportion it according to law to the districts within the counties";
- Prohibits new sales or transaction taxes on property or new taxes based on the value of property;
- Permits new other special taxes by local agencies only if approved by a 2/3 vote of the "qualified electors" of such agencies;
- Requires a 2/3 vote of all members of both houses of the Legislature for any increases in State taxes.

If approved, the provisions relating to the maximum property tax limitation will go into effect on July 1, 1978, affecting 1978-79 property taxes. The 2/3 vote requirement for the Legislature to enact increased State taxes will become effective immediately.

### Legislative Proposals

There are several proposals before the State Legislature. At this time, none have been approved, but three are considered as major potential programs. SB 1 of the regular session, authored by Senator Behr, was approved by the Senate on January 30. SB 6 and SB 7 of the Extraordinary Session has been approved by the Senate Revenue and Taxation Committee. Attachment 1 compares the principal elements of each major legislative proposal.

### COST IMPACT ON SAN BERNARDINO COUNTY TAXPAYERS

In San Bernardino County, homeowners pay about 41% of the property taxes. About 7% is paid from rental housing. Commercial, industrial and other types of income producing property pay the remaining 52%.

### Proposition 13

The Initiative would provide an "across-the-board" reduction in property taxes. Accordingly, the tax savings would accrue proportionately to the above groups of taxpayers. Limiting





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taxes to 1% of market value would result in an overall reduction of about 60% in total real estate taxes paid by all types of taxpayers.

Under Proposition 13, homeowners in the County would receive less than half of the initial benefits. The Initiative, therefore gives more benefits to business than to homeowners.

ESTIMATED REAL PROPERTY TAX SAVINGS  
FROM PROPOSITION 13

SAN BERNARDINO COUNTY

Homeowners	\$ 85,549,000
Business and Commercial	
Rental Property Owners	14,631,000
Other Business and Commercial	<u>78,090,000</u>
Total	\$ 178,270,000

Renters, who make up about 30% of the County population, would receive no direct tax savings from Proposition 13. Although the owners of rental buildings would pay less taxes from the 1% limit, the proposal provides no guarantee that these savings would be passed along to renters.

Proposition 13 contains a number of uncertainties which raise questions. Many of these have been previously reported, but it is appropriate to highlight some problems related to taxpayer equity because these issues will certainly be the ones debated in the next several months.

Residential Property Will Be Revalued More Often

Property may not be reassessed until it is sold. Because residential property tends to be sold and resold much faster than industrial property, the relative share of the 1% tax base will increase on homes rather than on business.

Unequal Taxes on Similar Homes

Two identical homes may have vastly different tax obligations while receiving the same services from government as each time a home is sold, it may be



revalued. If a home remains under the same owner, the value and the taxes can only increase 2% per year. Recent history has shown actual values in this County go up as much as 25% per year, and this would be reflected each time a house is sold.

#### Development Pressure May Be Intensified

By limiting property taxes to 1% of value, there will be pressures to expand the tax base. We have seen this in efforts to attract sales tax producing business in cities and in the annexation policies of some cities. This could impact open space and low density development policies in an effort to maximize local government financing capacity.

#### Economic Expansion May Escape Taxation

The Amendment allows the valuation of "new construction" at current market rates, but is silent on the valuation of additions or expansions to existing structures. It might be possible to dramatically expand a small plant and escape any tax increase except for the 2% per year inflation factor.

#### Legislative Proposals

Each legislative proposal provides specific, added benefits to homeowners or renters rather than business. This is accomplished by either increasing the existing Homeowners Exemption, renter and senior citizen rebates, or by implementing new rebate programs to return State funds to individuals.

The following table shows the property tax savings based on current San Bernardino County tax rates for a \$45,000 home.

	<u>Estimated Taxes</u>	<u>Amount of Savings</u>	<u>Percent Savings</u>
Current	\$ 1,103	\$ --	--
Proposition 13	450	653	59
SB 1	365	738	67
SB 6 & 7	935	168	15
SB 10 (relief tied to annual income)	685	418	38





CONCEPT OF REPLACEMENT REVENUE

As previously noted, the continuation of essential public services is of great concern to the community and to local and State officials. Maintenance of these services will require the cooperative efforts of all parties in developing priorities for services and a viable replacement revenue program.

Revenue to fund property tax relief will have to come either directly from State sources such as sales and income taxes or through legislative authority to local governments to raise these revenues. Service fees, while they should be fully utilized, simply cannot generate the funds necessary for full replacement. Likewise, it is unreasonable to expect that replacement revenues will be developed by merely increasing the rate of a single tax source such as doubling the sales or income tax.

The following chart shows that among all State revenue sources, sales and income taxes constitute 88% and must be looked to as the primary vehicles for replacement revenue.

STATE TAXES  
1978-79 ESTIMATES  
 (millions)

Sales	\$ 5,515.0	37.0%
Personal Income	5,500.0	37.0%
Bank and Corporation	2,120.0	14.3%
Insurance	447.0	3.1%
Inheritance	392.0	2.6%
Cigarette	198.0	1.3%
Alcoholic Beverage	135.0	.9%
Horseracing	110.4	.7%
Other (Including Fees)	<u>458.7</u>	<u>3.1%</u>
Total	\$ 14,876.1	100.0%

Proposition 13

The Jarvis Amendment contains no specific revenue replacement proposals. Thus, any analysis of alternative revenues is purely speculative, but some reports have been developed which show the magnitude of the financing problem.





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A proposal was recently announced by Senator Rodda, Chairman of the Senate Finance Committee, which produces the revenue necessary to make up for the \$7 billion property tax revenue reduction.

The proposal includes:

- Increasing the sales tax from 6% to 7% and extending the sales tax to include Professional Services;
- A 20% increase in the personal income tax;
- A 40% increase in the bank and corporation tax;
- Use of the State surplus;
- Reallocation of property tax relief reimbursements currently paid to local governments and individuals.

The following chart shows the estimated amounts to be raised by the proposal Statewide and that portion anticipated to be paid by taxpayers in San Bernardino County.

ESTIMATED COSTS OF REPLACEMENT REVENUE PROGRAM  
(1978-79)  
(millions)

	<u>Statewide</u> <u>Estimates</u>	<u>San Bernardino</u> <u>County</u>
<u>Sales Tax</u>		
- 1¢ increase	\$ 1,100	\$ 36.4
- 7% tax on Professional Services	2,100	69.4
<u>Income Tax</u>		
- Personal	1,200	39.7
- Corporate	900	29.7
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Sub-Total	5,300	175.2
State Surplus	1,200	- -
Property Tax Reimbursement Savings	800	- -
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Total	\$ 7,300	\$ 175.2



Legislative Proposals

In two of the three legislative proposals, with the exception of some minor adjustments in business taxes to finance a higher business inventory exemption, property tax relief would be paid from existing State funds.

The 1978-79 Governor's budget has earmarked \$1 billion to finance added tax relief. Even with that allocation, the State is projecting a surplus by June 30, 1979, of about \$3 billion. The surplus has grown to this magnitude largely because inflation has pushed incomes up thereby generating State income taxes much faster than State government expenditures have risen. Most of the State income tax is generated by homeowners and renters as opposed to businesses. Therefore, targeting property tax relief toward homeowners and renters returns the State surplus to those taxpayers who have principally contributed to it.

SB 1 (Behr), would be financed through new taxing sources. Proceeds from a 20% surtax on the incomes of homeowners and a 5% property transfer tax would be put in a special fund to finance payments for higher homeowners exemptions. This, too, would avoid a tax shift from one major taxpayer group to another. Senator Behr has indicated that he will be receptive to amending the financing provisions of his bill. Such amendments could make greater use of the State surplus thereby reducing or eliminating the need for added taxes.

POSSIBLE IMPACT ON GOVERNMENT SERVICES

Within the local government structure, the impact on services may, through income restrictions, vary greatly depending on the particular restraints imposed by legislation and the scope and complexity of the local government entities.

Counties and cities provide a multitude of services both mandated and those conducted at their own option. These entities also have complex financing structures including locally generated taxes and fees and use large amounts of State and Federal assistance.

There are also special districts, including schools, which render a wide variety of programs and can be considered as single purpose entities which deliver a specific service to a defined area. The financing structure for these districts is more heavily dependent on property taxes than either cities or counties.





Historically, each local agency within the community has functioned with relative independence, especially in deciding service levels and local taxes. The prospect of a significant limit on local government taxing authority will probably result in a greater interdependence among all local governments.

All the potential measures contain provisions which will impact the overall service structure of local governments. Although Proposition 13 has been widely publicized as possibly reducing public services, this is not specifically mentioned in the Initiative. Its effect, however, if replacement financing is not implemented by the Legislature, would be a significant reduction in both the types of service rendered and the levels of local government services.

#### Impact of Reduced Overall Income

The service impact of reduced overall income will depend largely on the amount of the reduction and how it is apportioned to various local entities. Until proposals are developed which can both apportion the reduced property tax proceeds and allocate replacement funds, local officials cannot make realistic program and service plans.

However, some early consideration should be given by the County to the types of services which might be subject to curtailment. Among the elements we will consider in such a program are:

- Mandated services and service levels;
- High priority elements of essential services such as public safety and health care;
- Those programs which provide desired public services but depend on local discretion.

#### Proposition 13

Many of the concerns about the impact of reduced overall income are based on two major assumptions:

- a) The loss would be proportional based on existing tax levies;
- b) The State Legislature would refuse to respond to the major issues of continuing essential public services provided by local government.

Neither of these assumptions is totally valid in my opinion.





The service impact from Proposition 13 would vary among cities, the County and districts depending on the elements of an allocation formula for the 1% tax proceeds.

The requirement that a 2/3 vote of the "qualified electors" approve new local taxes authorized by the Legislature would be difficult to meet if qualified electors means registered voters. In most cases, local elections do not receive a 2/3 voter turnout.

Capital improvement programs might be substantially reduced as the Initiative would effectively prohibit the passage of bond issues to provide long term financing.

The following figures show the relative dependence on property taxes of local governments in this County:

WHO SPENDS THE PROPERTY TAX?

	<u>San Bernardino County Property Tax Levies Percent of Total</u>
County	.24.6
Cities	8.4
Schools	50.1
Special Districts	<u>16.9</u>
Total	100.0

HOW IMPORTANT IS THE PROPERTY TAX?

	<u>Property Tax Collections In San Bernardino County as Percent of Total Revenue</u>
County	30.0
Cities	15.5
Schools	43.1
Special Districts	27.9



It is obvious that not all agencies depend equally on property taxes for their programs. The County, as one of those heavily dependent agencies, must actively participate in the formulation of any new revenue programs in order to insure adequate recognition of the need to continue essential services.

### Long Term Impact of Revenue Limits

#### Legislative Proposals

Each of the principal legislative proposals limit the increase in property tax revenue. This is substantially more restrictive than the current property tax rate limit system for cities, counties, and special districts. Given the recent history of large assessed value increases, especially in residential property, it is almost certain that the revenue limits as proposed will result in property tax rate decreases for most taxpayers. Individual tax bills, however, may still rise as a result of higher market values.

The legislative proposals also include a feature for a lower property tax rate on homes than on other types of property. The "split rate" feature will be contingent on the voter approval of Proposition 8 on the June ballot.

The voters of a jurisdiction retain their right to set a higher taxing limit for new or expanded services thereby retaining local control. Similarly, financing flexibility to fund Federal, court and emergency imposed costs would continue.

### CONCLUSION

Perhaps the most significant long-range impact of either tax reform will be a change in the overall relationship between the State and local governments. This will be particularly evident as the State finances a greater share of our programs with replacement revenue in lieu of property taxes.

In the 1977-78 County General Fund budget of \$260.8 million, \$9.3 million or 3.6% is financed by State property tax replacement revenue. If, under a 1% limit program, our property tax revenue of \$70.2 million were reduced by 60% and the State made up the difference, an added \$42 million of State funding would result. Thus, the State would be supplying nearly 20% of our income with no program ties.





I believe it is quite likely that in the long run, the State would attempt more control over the programs and service levels which have been traditionally governed by local officials.

Because of the far-reaching changes almost certain to occur in local government financing this year, the County must be ready and has the responsibility to take the leadership in advocating a reasoned alternative financial plan guaranteeing fairness to our residents in the tax system and continued essential services.

EG:nm



Major Provisions	SB1 (Behr)	SB6x & SB7x (Rodda)	SB10x (Dunlap, Petris, Roberti, Sieroty)
<u>Homeowners Exemption</u> Currently \$1,750 of assessed value.	72% of the assessed value up to a maximum of \$50,000 A.V. Extends exemption to mobile homes.	Increased to \$2,500 of assessed value.	Increased to \$3,150 of assessed value.
<u>Renter Relief</u> Currently \$37 income tax credit	Repealed and replaced by a sliding scale of assistance based on income.	Increased to \$75.	Increased to \$87.
<u>"Circuit Breaker"</u>	Not included.	Not included.	Provides a sliding scale of benefits tied to income and a minimum of taxes paid.
<u>Senior Citizens Renters</u> Sliding scale of assistance based on income not exceeding \$5,000	Not specifically provided for. Relief for senior citizen renters is included in overall revision of renter relief program.	Increases eligible income to \$12,000 and increases the total program by about 100%.	Same as SB6x and SB7x.
<u>Welfare/Medi-Cal Property Tax</u>	Eliminates homeowner property tax for Medi-Cal, SSI/SSP and AFDC.	Same as SB1.	Not included.
<u>Business Inventory Exemption</u> Currently 50% with full reimbursement of losses to local jurisdictions	Not included.	Increases exemption to 100% and provides formula for subvention in future years.	Not included.
<u>Local Government Financing Limits</u> Currently, tax rate increase is limited to population and cost of living changes.	Limits increases in property tax, fine, fee and service charge revenue to percentage change in population and cost of living. Limits increase in assessed value of homes to percentage increase in population and cost of government services.	Limits increases in property tax revenue to an inflation factor based on cost of government services. Implements a "split rate" so that property tax rate on homes may be less than on other types of property.	Same as SB6x and SB7x.
<u>County Medi-Cal and SSI/SSP Obligation</u> Currently increases each year based on A.V. growth	Limits increase to A.V. growth or government price increase, whichever is less.	Same as SB1.	Same as SB1.
<u>New Taxes</u>	Imposes a 20% surtax on income taxes paid by persons qualifying for Homeowners' Exemption.  Imposes a 5% transfer tax on the sale of homes.	Removes some exemptions to the sales tax.  Increases bank and corporation tax rate on preference income.  Limits depletion allowance on mining to adjusted cost.	None.
<u>State Revenue Limit</u> Currently none	None	Increase in annual State revenues above personal income growth are placed in a special fund for tax reduction, local government revenue sharing, funding of property tax relief, or emergencies.	Same as SB6x and SB7x.



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